Report of Management

Management is responsible for the preparation of the accompanying financial statements and for other financial and operating information appearing in the annual report. Management believes that the Company's accounting systems and internal accounting controls provide assurance that all accounts and records are maintained by qualified personnel in requisite detail, and accurately and fairly reflect transactions of Apex Silver Mines Limited in accordance with established policies and procedures.

The Board of Directors has an Audit Committee, the majority of whose members are neither officers nor employees of the Company or its affiliates. The Audit Committee recommends independent accountants to act as auditors for the Company for consideration by the Board of Directors; reviews the Company's financial statements; confers with the independent accountants with respect to the scope and results of their audit of the Company's financial statements and their reports thereon; reviews the Company's accounting policies, tax matters and internal controls; and reviews compliance by the Company with the requirements of federal regulatory agencies. Direct access to the Audit Committee is given to the Company's financial and accounting officers and the independent accountants.

Thomas S. Kaplan
Chairman
Apex Silver Mines Limited

Gregory G. Marlier
Vice President and
Chief Financial Officer
Apex Silver Mines
Corporation

Report of Independent Accountants

To the Board of Directors and Shareholders of Apex Silver Mines Limited

(Successor to Apex Silver Mines LDC), an Exploration Stage Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Apex Silver Mines Limited (successor to Apex Silver Mines LDC) and its subsidiaries at December 31, 1997, and 1996 and the results of their operations and their cash flows for the years ended December 31, 1997, 1996 and 1995 and the period from December 22, 1994 (inception) through December 31, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

PRICE WATERHOUSE LLP

Denver, Colorado
March 26, 1998

Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of the Company and related notes.

The Company is a mining exploration and development company that holds a portfolio of silver exploration and development properties in South America, Central America and Central Asia. None of these properties are in production and, consequently, the Company has no current operating income or cash flow.

Background

In mid-1993, Apex Silver Mines Ltd. ("Apex Bermuda") was established to acquire and develop silver exploration properties throughout the world.

On December 22, 1994, Apex Bermuda contributed substantially all of its assets to Apex Silver Mines LDC, a limited duration company formed under the laws of the Cayman Islands.

In March of 1996, Apex Silver Mines Limited, a limited liability company formed under the laws of the Cayman Islands, was incorporated in order to facilitate a 1996 private placement transaction (the "Private Placement"). In August of 1996, Apex Silver Mines Limited issued 4,256,700 ordinary shares in the Private Placement for net proceeds of $32.4 million. In connection with the 1996 Private Placement, Apex Silver Mines Limited also issued ordinary shares to certain of the non-U.S. investors in Apex LDC in exchange for their interests in Apex LDC. As of December 31, 1997, Apex Silver Mines Limited owns approximately 73 percent of Apex LDC. The minority shareholders of Apex LDC (the "Minority Shareholders") are entitled to sell their shares of Apex LDC to Apex Silver Mines Limited for, at Apex Silver Mines Limited's sole option, ordinary shares of Apex Silver Mines Limited on a one for one basis, cash, or a combination of cash and ordinary shares. Apex Silver Mines Limited currently expects that any future purchases by Apex Silver Mines Limited of shares of Apex LDC from the Minority Shareholders will involve only ordinary shares. Any such transactions will not affect the beneficial and economic interest in Apex LDC attributable to shareholders of Apex Silver Mines Limited. As of December 31, 1997, Apex Silver Mines Limited has approximately 19,124,916 ordinary shares outstanding and approximately 7,077,007 ordinary shares reserved for issuance for approximately 7,077,007 shares of Apex LDC owned by the Minority Shareholders. If all such shares of Apex LDC were issued, the Apex Silver Mines Limited would have 26,201,923 ordinary shares outstanding.

The Initial Public Offering

On December 1, 1997, the Company closed its initial public offering (the "Offering") of ordinary shares. The Company sold 5,000,000 ordinary shares at a price of $11 per share on the American Stock Exchange under the symbol "SIL." 3,720,000 shares were offered initially in the United States and Canada by the U.S. Underwriters, 450,000 shares were offered initially outside the United States by the International Underwriters and 830,000 shares were offered in a concurrent offering by the Company directly to a shareholder of the Company. In addition, on December 23, 1997, the underwriters exercised their option to purchase an additional 523,372 ordinary shares at the initial price of $11 per share. Net proceeds raised in the Offering were approximately $54.8 million.

The San Cristobal Project

From 1994 to 1997, the properties comprising the San Cristobal Project were acquired in a series of transactions. In 1996 the Company began exploring these properties, and discovered the presence of a significant silver, zinc and lead deposit with the potential to be developed as a large scale open-pit mining project. In the fall of 1996, an in-fill drilling program using reverse circulation and diamond core drilling was continued in order to delineate the deposit and the amount of reserves. In addition, an expanded exploration effort at the San Cristobal Project resulted in the discovery of additional silver and base metal anomalies. On August 15, 1997, the Company acquired the 2.5 percent minority interest in ASC Bolivia for 268,496 shares of the Company valued at $11 per share. The primary asset of ASC Bolivia is the San Cristobal Project. Accordingly, the total consideration of $2,953,456 has been capitalized as mining properties.

Based on the San Cristobal Study, the San Cristobal Project is forecast to produce annually an average of 14 million ounces of silver, 132,700 tonnes of zinc and 39,500 tonnes of lead during an expected minimum life of 11.5 years. The San Cristobal Project is expected to consist of two large scale, open pit mining operations using conventional mining and processing technologies capable of producing and processing an aggregate 30,000 tonnes per day ("tpd") of ore. The average cash production cost over the life of the San Cristobal Project is forecast to be $2.66 per silver equivalent ounce. Capital expenditures are estimated to total $327 million for preproduction development and construction to complete the San Cristobal Project. Based on the favorable results of the San Cristobal Study, the Company is targeting the completion of a final feasibility study of the San Cristobal Project by the first quarter of 1999 with a goal of securing committed financing in the first half of 1999.

The Company commissioned this final feasibility study at the beginning of 1998. The Company intends to continue an extensive drilling program in order to (i) further define the existing ore bodies, (ii) increase the San Cristobal Project's proven and probable reserves and (iii) evaluate other areas of potential mineralization. At the same time, contracts for power supply, transportation, and smelting and refining of metal concentrates will be negotiated.

If the results of this final feasibility study confirm the economic feasibility of the San Cristobal Project, and if no new properties emerge in the interim that are considered to be more attractive development opportunities, the Company expects to devote the majority of the proceeds from the Offering to financing the final feasibility study and contribute to the construction and development costs of the San Cristobal Project.

The Company has retained Rothschild Natural Resources LLC and Barclays Bank PLC as the Company's financial advisor and arranger, respectively, in connection with the anticipated project financing of the San Cristobal Project. The Company anticipates that project financing activities will commence on a preliminary basis in early 1998 and then accelerate with the delivery of the a final feasibility study in early 1999 with financing to be secured by the second quarter of 1999. If this timetable is achieved, project construction could commence in early 1999 and, after an approximate two-year construction and development program, production could commence in early 2001.

Other Projects

The Company is also assessing the economic viability of (i) the Cobrizos property in Bolivia, which may be developed in conjunction with the San Cristobal Project; (ii) the El Ocote project in Honduras; and (iii) the San Juan de Lucanas project in Peru.

The Cobrizos property is located approximately 12 kilometers north of the San Cristobal Project. Recent drilling by the Company suggests the presence of approximately 10.8 million tonnes of mineralized material containing 4.3 ounces of silver per tonne and 0.2 percent copper. This mineralized material estimate has been reviewed and verified by MRA, an independent mine geology consulting firm. The mineralized body is amenable to open pit mining and is being considered as a satellite mining operation that could provide additional feed to the proposed mill to be constructed at the San Cristobal Project, thereby enhancing the silver grade of the ore processed by the mill after the early years of operation at the San Cristobal Project.

The El Ocote property is located in southwest Honduras. Behre Dolbear reviewed the Company's estimate that the property contains approximately 2.1 million tonnes of mineralized material averaging

9.9 ounces of silver per tonne and prepared a conceptual study of this property for the Company in 1996. On the basis of this initial study, the Company conducted further fieldwork and a second conceptual study. This latest study, which was performed by Davy, utilized the earlier resource estimates, and estimated new capital and operating costs and production schedules based on underground mining and heap leach processing. The Company expects to conduct an additional round of fieldwork and to undertake metallurgical sampling and heap leach tests. If warranted, these analyses will be followed by additional drilling to establish proven and probable reserves.

In June of 1995, Pincock, Allen and Holt, ("PAH") prepared a conceptual study for the rehabilitation of an idled mine at the San Juan de Lucanas property. The results indicated that approximately $10 million in capital expenditures would be required to rehabilitate the mine to a 500 tpd capacity operation. The Company believes that the identification of additional reserves at the site would be required to justify such an investment. In addition, the Company has experienced lengthy delays in its effort to register its title to the properties comprising the San Juan de Lucanas property. While the Company believes its legal position is secure, it is not currently possible to estimate when this registration process will be completed. The Company expects to begin exploration and commission a first phase feasibility study of the property after its title thereto has been perfected.

Results of Operations

Loss Before Minority Interest
The Company does not yet produce silver or any other mineral products and has no revenues from product sales. The only source of revenue is interest income. The loss before minority interest for the year ended December 31, 1997 was $14,984,958 compared to a loss before minority interest of $14,599,240 and $3,354,160 for the years ended December 31, 1996 and 1995, respectively.

Exploration
Mineral exploration expenditures are expensed as incurred prior to the determination of the feasibility of mining operations. Once it has been determined that a mineral property has proven and probable ore reserves, subsequent development and exploration expenses are capitalized. Through December 31, 1997, all acquisition and exploration costs have been expensed as incurred, except those pertaining to the San Cristobal Project. As of September 1, 1997, the Company has capitalized exploration and development costs associated with the San Cristobal Project and will continue to do so in the future.

Exploration expenses were $9,754,231 for the year ended December 31, 1997 compared to $9,590,632 and $1,559,874 for the years ended December 31, 1996 and 1995, respectively. The increased exploration expenses from 1996 to 1997 were due to an increase in exploration activity at the San Cristobal Project. Total cumulative exploration expense at the San Cristobal Project was $16,685,071 through December 31, 1997.

Administrative
Administrative expenses were $4,129,623 for the year ended December 31, 1997, compared to $1,923,165 and $982,261 for the years ended December 31, 1996 and 1995, respectively. The increased expenditures were primarily due to the hiring of key management personnel during the second half of 1996, the opening of Apex Corporation's Denver office in 1996, and stock option compensation expense associated with the granting of stock options to directors and officers in the year ended December 31, 1997.

Consulting
Consulting fees were $1,523,116 for the year ended December 31, 1997 compared to $2,506,250 and $560,060 for the years ended December 31, 1996 and 1995, respectively. The decrease in 1997 versus 1996 is primarily due to expenses associated with retaining third party consultants to prepare technical studies on various properties that were capitalized on the San Cristobal Project from September 1 to December 31, 1997.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Professional Fees
Professional fees were $390,369 for the year ended December 31, 1997, compared to $1,096,271 and $657,621 for the years ended December 31, 1996 and 1995, respectively. The increase in 1996 over 1995 was primarily due to higher legal and accounting fees. The decrease from 1996 to 1997 was primarily due to the capitalization of costs associated with the Offering.

Interest Income
The primary source of income for the Company since inception is interest income. Interest income for the year ended December 31, 1997 was $961,810 compared to $574,470 and $462,247 for the years ended December 31, 1996 and 1995, respectively. The Company's policy is to invest all excess cash in liquid, high credit quality, short term financial instruments. The increase in interest income for the comparative periods was due to the additional cash raised in the 1996 Private Placement and the Offering.

Income Taxes
Apex Corporation, the Company's U.S. management services company, is subject to U.S. income taxes. Otherwise the Company pays no income tax in the U.S. since the Company is incorporated in the Cayman Islands and conducts no business that currently generates U.S. taxable income. There is currently no corporate taxation imposed by the Cayman Islands. If any form of taxation were to be enacted in the Cayman Islands, the Company has been granted exemption until January 16, 2015.

Employee Benefits

The Company does not provide any post-retirement or post-employment benefits to its employees and therefore does not accrue for such expenses. In 1997, Apex Corporation instituted a 401(k) Plan for its U.S. employees. Apex Corporation makes monthly contributions to this 401(k) Plan, and currently matches 50 percent of each employee's contribution up to an employee contribution of six percent of base salary. Employees vest in the Company's contribution at 50 percent after one year of service and 100 percent after two years of service. Although the Company does not currently have a formal bonus or incentive plan for any of its employees, it anticipates instituting an incentive based bonus plan in the future.

Liquidity and Capital Resources

As of December 31, 1997, the Company had cash and cash equivalents of $57,033,193 compared to $25,949,771 at December 31, 1996. The increase in 1997 relative to 1996 was due primarily to the receipt of net proceeds from the Offering.

In connection with the 1996 Private Placement, which closed effective August 6, 1996, the Company issued 4,256,700 ordinary shares at a price of $8.00 per share and received net proceeds of $32,449,350.

The net cash used in operating activities for the year ended December 31, 1997 was $17,776,508 compared with $12,091,580 and $3,490,631 for the years ended December 31, 1996 and 1995, respectively. The variance in the net cash used in operating activities between the comparative periods was due to the increased exploration activity and the San Cristobal Study. The net cash provided by financing activities was $55,007,682 for the year ended December 31, 1997, compared with $35,269,068 and $6,430,307 for the years ended December 31, 1996 and 1995, respectively, due to the Offering in 1997 and the Private Placement in 1996.

The Company is subject to a series of obligations with respect to its mineral properties; the failure to meet any of these commitments could result in the loss or forfeiture of one or more of the Company's properties. These obligations consist of government mineral patent fees and commissions, work commitments, lease payments and advance royalties. In addition, a number of the Company's property interests derive from contractual purchase options. In order to acquire such properties, the Company will be obliged to make certain payments to the registered concession holders and others who have interests in the properties.

The Company does not currently have a line of credit with any financial institution.

The Company's future revenues and earnings will be influenced by currency exchange rates and by world market prices for silver, zinc, lead, copper and gold, which fluctuate and over which the Company has no control. Depending upon market conditions for currency exchange and metal prices, the Company may from time to time hedge its metal or currency exposure in order to decrease fluctuations in revenues and earnings. The Company does not currently have firm policies or guidelines for hedging foreign currency, interest rate or metals price exposure.

The Company does not know of any trends, demands, commitments, events or incidents that may result in the Company's liquidity either materially increasing or decreasing at present or in the foreseeable future.

The Company will devote the majority of the net proceeds received from the Offering to finance its portion of the San Cristobal Project's construction and development. In addition, it is anticipated that significant expenditures will be made for other continuing exploration, property acquisition, property evaluation and general corporate expenses.

The development program at the San Cristobal Project will require significant additional financing. Sources of financing may include bank borrowings and future additional debt or equity financing. There can be no assurance that any such financing will be obtainable on terms that are attractive to the Company, or at all. The Company has retained Rothschild Natural Resources LLC and Barclays Bank PLC to act as the Company's financial advisor and arranger, respectively, in connection with the anticipated project financing for the San Cristobal Project.

As of the date hereof, the Company does not plan to declare or pay a dividend.

Environmental Compliance

The Company's current and future mining and processing operations and exploration activities will be subject to various federal, state and local laws in the countries in which it conducts its activities, which govern the protection of the environment, prospecting, development, production, taxes, labor standards, occupational health, mine safety, toxic substances and other matters. Management does not believe that compliance with such regulations will have a material adverse effect on its competitive position. The Company intends to obtain all licenses and permits required by all applicable regulatory agencies in connection with its mining operations and exploration activities. The Company intends to maintain standards of environmental compliance consistent with World Bank environmental guidelines.

The Company's preliminary analysis of the previous leaching operations at the Toldos mine indicates that some effluents from the site may be draining into a seasonal stream which flows into the Rio Grande and, ultimately, into the Salar de Uyuni, a salt lake to the north of the San Cristobal Project. Under Bolivian law the Company is not obligated to remediate known pre-existing environmental conditions. Nonetheless, the Company expects to improve the environmental situation which may currently exist at the Toldos property. The Company does not expect any such program to have a material adverse effect on the Company's proposed operations at the San Cristobal Project.

Quantitative and Qualitative Disclosures About Market Risk

Currently, the Company's major principal cash balances are held in U.S. dollars. Subsidiary cash balances in foreign currencies are held to minimum balances and therefore have a minimum risk to currency fluctuations. There are currently no hedge positions against foreign currencies. The Company currently does not hedge commodity and base metals price risks. However, the Company anticipates that as its mineral properties are brought into production and it begins to derive revenue from the production, sale and exchange of commodity and base metals, the Company may utilize various price hedging techniques to lock in forward delivery prices on a portion of its production, and thereby mitigate some of the risks associated with fluctuations in the prices of the metals it produces. The Company may also engage in hedging activities to hedge the risk of exposure to currency fluctuations as a result of its operations in several foreign countries. There can be no assurance that the use of hedging techniques will always benefit the Company.

Year 2000 Date Conversion

The inability of computer programs to correctly interpret the century from a date which consists of two-year digits does not appear to be a significant problem to the Company. As of December 31, 1997, the Company has no mainframe or central database. The Company's accounting system is directed by personal computers and software. Although minor adjustments may be required on the software applications, these costs will be immaterial. To further mitigate the risk of loss of data, the Company intends to perform regular tape backups of all files, contact software manufacturers about updates to their products and keep informed of the latest developments concerning year 2000 issues.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements, other than statements of historical facts, included in this filing which address activities, events or developments that the Company expects, believes, intends or anticipates will or may occur in the future, including such matters as future investments in existing development projects and the acquisition of new mineral properties (including the amount and nature thereof), business strategies and the future need for additional funds from outside sources, are forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy, and some of which might not even be anticipated. Future events and actual results, financial and otherwise, could differ materially from those set forth in or contemplated by the forward-looking statements therein.

Stock Market Information

Apex Silver Mines Limited ordinary shares (symbol "SIL") are traded on the American Stock Exchange ("AMEX"). Actual trade prices from initial trading on November 25, 1997 through the end of the year, as reported by the AMEX, ranged from \$11 to \$13 1/16 per ordinary share.

The closing trade price per ordinary share on March 27, 1998, as reported by the AMEX, was \$12 3/4. As of March 27, 1998, the number of registered shareholders of Apex Silver Mines Limited ordinary shares was approximately 74.

Consolidated Balance Sheet

(Expressed in United States dollars)

Years ended December 31,	1997	1996
Assets		
Current assets		
Cash and cash equivalents	$ 57,033,193	$ 25,949,771
Accrued interest receivable	102,412	—
Amounts due from affiliate	722,717	—
Prepaid expenses and other assets	968,050	154,225
Current assets	58,826,372	26,103,996
Mining properties and development costs	11,888,258	—
Plant, buildings and equipment (net)	1,149,842	523,534
Value Added Tax recoverable	1,351,004	—
Deferred organizational costs (net)	113,183	169,774
Total assets	$ 73,328,659	$ 26,797,304
Liabilities and Shareholders' Equity		
Current liabilities		
Amounts due to affiliate	$ —	$ 533,275
Accrued salaries, wages and benefits	40,736	310,669
Accounts payable and other accrued liabilities	553,130	1,642,050
Current portion of long-term debt	412,408	—
Current liabilities	1,006,274	2,485,994
Long-term debt	3,093,788	—
Commitments and contingencies (Note 12)	—	—
Shareholders' equity		
Ordinary shares, $.01 par value, 75,000,000 shares authorized; 19,124,916, and 13,079,246, shares issued and outstanding, respectively (See Note 1e)	191,249	130,792
Contributed surplus	97,819,969	37,978,181
Accumulated deficit	(28,782,621)	(13,797,663)
Total shareholders' equity	69,228,597	24,311,310
Total liabilities and shareholders' equity	$ 73,328,659	$ 26,797,304

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Operations

(Expressed in United States dollars)

	Years ended December 31, 1997	1996	1995	For the period December 22, 1994 (inception) through December 31, 1997
Income				
Interest income	$ 961,810	$ 574,470	$ 462,247	$ 2,013,783
Total income	961,810	574,470	462,247	2,013,783
Expenses				
Exploration	9,754,231	9,590,632	1,559,874	21,009,922
Administrative	4,129,623	1,923,165	982,261	7,182,829
Consulting	1,523,116	2,506,250	560,060	4,734,266
Professional fees	390,369	1,096,271	657,621	2,164,861
Amortization and depreciation	149,429	57,392	56,591	263,412
Total expenses	15,946,768	15,173,710	3,816,407	35,355,290
Loss before minority interest	(14,984,958)	(14,599,240)	(3,354,160)	(33,341,507)
Minority interest in loss of consolidated subsidiary	—	2,875,927	1,492,975	4,558,886
Net loss for the period	$ (14,984,958)	$ (11,723,313)	$ (1,861,185)	$ (28,782,621)
Net loss per ordinary share— Basic and diluted[1]	$ (0.72)	$ (0.66)	$ (0.12)	$ (1.59)
Weighted average ordinary shares outstanding (See Note 1e)	20,929,882	17,672,206	15,899,553	18,145,992

[1] *Diluted earnings per share were antidilutive for all periods presented.*

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

(Expressed in United States dollars)

	Shares outstanding	Amount	Contributed surplus	Accumulated deficit	Total shareholders equity
Issuance of shares upon incorporation December 22, 1994	8,822,546	$ 88,225	$ 5,571,398	$ —	$ 5,659,623
Net loss	—	—	—	(213,165)	(213,165)
Balance, December 31, 1994	8,822,546	88,225	5,571,398	(213,165)	5,446,458
Net loss	—	—	—	(1,861,185)	(1,861,185)
Balance, December 31, 1995	8,822,546	88,225	5,571,398	(2,074,350)	3,585,273
Issuance of shares in private placement	4,256,700	42,567	32,406,783	—	32,449,350
Net loss	—	—	—	(11,723,313)	(11,723,313)
Balance, December 31, 1996	13,079,246	130,792	37,978,181	(13,797,663)	24,311,310
Acquisition of minority interest in ASC Bolivia	268,496	2,685	2,950,771	—	2,953,456
Issuance of shares to associates	138,595	1,386	1,523,159	—	1,524,545
Issuance of shares	115,207	1,152	231,566	—	232,718
Stock option compensation expense	—	—	416,562	—	416,562
Issuance of shares upon Initial Public Offering, net of share issue costs	5,523,372	55,234	54,719,730	—	54,774,964
Net loss	—	—	—	(14,984,958)	(14,984,958)
Balance, December 31, 1997	19,124,916	$191,249	$97,819,969	$(28,782,621)	$ 69,228,597

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(Expressed in United States dollars)

	Years ended December 31,			For the period December 22, 1994 (inception) through December 31,
	1997	1996	1995	1997
Cash flows from operating activities:				
Net cash used in operating activities (See Note 11)	$(17,776,508)	$(12,091,580)	$(3,490,631)	$(33,687,305)
Cash flows from investing activities:				
Mining properties and development costs	(5,428,606)	—	—	(5,428,606)
Purchases of plant, buildings and equipment	(719,146)	(524,335)	—	(1,243,481)
Net cash used in investing activities	(6,147,752)	(524,335)	—	(6,672,087)
Cash flows from financing activities:				
Net proceeds from issuance of ordinary shares	55,007,682	35,269,068	6,430,307	97,675,541
Deferred organizational and financing costs	—	—	—	(282,956)
Net cash provided by financing activities	55,007,682	35,269,068	6,430,307	97,392,585
Net increase in cash and cash equivalents	31,083,422	22,653,153	2,939,676	57,033,193
Cash and cash equivalents beginning of period	25,949,771	3,296,618	356,942	—
End of period	$ 57,033,193	$ 25,949,771	$ 3,296,618	$ 57,033,193
Supplemental non-cash transactions:				
Acquisition of minority interest in ASC Bolivia for ordinary shares at $11 per share	$ 2,953,456	—	—	$ 2,953,456
Acquisition of mining properties for assumption of debt	$ 3,506,196	—	—	$ 3,506,196

1. Incorporation, Recapitalization, Initial Public Offering, Ownership and Operations

a. Apex Silver Mines Limited ("Apex Limited" or the "Company") was formed under the laws of the Cayman Islands in March of 1996 for the sole purpose of serving as a holding company for certain ownership interests in Apex Silver Mines LDC ("Apex LDC"). On April 15, 1996, holders of approximately 55% of the then-outstanding shares of Apex LDC elected to participate, effective as of the completion of a proposed private placement of shares of Apex Limited which was completed as of August 6, 1996, in a recapitalization effected by an exchange, on a one-for-one basis, of their shares in Apex LDC for identical equity instruments of Apex Limited (the "Recapitalization"). The balance of shareholders retained a direct ownership interest in Apex LDC. As a result of this Recapitalization, Apex LDC became a majority-owned subsidiary of Apex Limited. For purposes of the accompanying consolidated financial statements of Apex Limited, the Recapitalization has been given retroactive effect to the date of incorporation of Apex LDC, with the results of operations and equity attributable to the other ownership interests in Apex LDC being reflected in "minority interest in consolidated subsidiary." Consequently, for purposes of these financial statements, Apex Limited is considered the successor to Apex LDC.

b. In August of 1996, Apex Limited issued 4,256,700 ordinary shares in a private placement transaction (the "Private Placement") for net proceeds of $32.4 million. These proceeds were contributed to Apex LDC in exchange for the issuance by Apex LDC of 4,256,700 shares of its share capital. As a result of this private placement, the Company's ownership interest in Apex LDC was increased from approximately 55% to 65%.

c. On December 1, 1997, the Company closed on its initial public offering (the "Offering") of ordinary shares. The Company sold 5,000,000 ordinary shares at a price of $11 per share on the American Stock Exchange under the symbol "SIL." In addition, on December 23, 1997, the underwriters exercised an option to purchase an additional 523,372 ordinary shares at the initial price of $11 per share. Net proceeds raised in the Offering were approximately $54.8 million. These proceeds were contributed to Apex LDC in exchange for the issuance by Apex LDC of 5,523,372 shares of its share capital. As a result, the Company's ownership interest in Apex LDC increased to 73%.

d. Apex LDC was incorporated under the laws of the Cayman Islands on November 23, 1994 as a 30-year limited duration company on the contribution of all the assets of its predecessor entity, Apex Silver Mines Ltd., a Bermuda corporation. (Actual contribution occurred on December 22, 1994.) The activity of the predecessor has not been presented herein as it was immaterial. However, all expenses incurred by the predecessor have been presented. The Company's principal activity is the exploration of mineral properties. The Company participates in the acquisition and exploration of mineral properties for possible future development directly and indirectly through Apex LDC's principal subsidiaries, Andean Silver Corporation LDC ("Andean"), ASC Bolivia LDC ("ASC Bolivia"), Apex Asia LDC ("Apex Asia"), Minera de Cordilleras (Honduras), S. de R.L. ("Cordilleras Honduras"), Cordilleras Silver Mines Ltd. ("Cordilleras Bahamas"), Cordilleras Silver Mines (Cayman) LDC ("Cordilleras Cayman"), Compania Minerales de Zacatecas, S. de R.L. de C.V. ("CMZ"), Apex Silver Mines Corporation ("Apex Corporation"), and ASC Peru LDC ("ASC Peru").

e. In conjunction with the Recapitalization and the Private Placement, Apex Limited and the shareholders of Apex LDC entered into a Buy-Sell Agreement (the "Buy-Sell Agreement") which is intended to maintain the same beneficial interest in Apex LDC attributable to all shareholders of Apex LDC prior to the Recapitalization and Private Placement. Pursuant to the terms of the Buy-Sell Agreement, upon a request by a shareholder of Apex LDC, Apex Limited is required to purchase, at its sole option, for cash, for ordinary shares or for a combination thereof, the shares of Apex LDC owned by such shareholder. Apex Limited currently expects that any purchase of shares of Apex LDC will involve only an equal number of ordinary shares. As of December 31, 1997, Apex Limited has approximately 19,124,916 shares outstanding and approximately 7,077,007 ordinary shares reserved for issuance for the approximately 7,077,007 shares of Apex LDC owned by such shareholders. If all such ordinary shares were issued, the Company would have approximately 26,201,923 ordinary shares outstanding. Because of the provisions of the Buy-Sell Agreement, all of the outstanding shares of Apex LDC are considered ordinary shares for purposes of computing basic net loss per ordinary share.

f. The Company, through its direct and indirect subsidiaries, is active in Central America, South America and Central Asia and currently holds interests in, or is the beneficial owner of, non-producing silver resource properties in Chile, Bolivia, Honduras, Kyrgyzstan, Mexico, Mongolia, Peru and Tajikistan. The Company is in the process of evaluating its properties to determine economic feasibility of bringing one or more of the properties into production.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The Company's significant accounting policies are summarized as follows:

a. Basis of consolidation
These consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. Investment in 50% joint ventures are proportionately consolidated.

b. Translation of foreign currencies
All expenditures are made in United States dollars. Accordingly, the Company uses the United States dollar as its functional currency.

c. Cash, cash equivalents and short-term investments
The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Short-term investments include certificates of deposit with maturities greater than three months, but not exceeding six months. Short-term investments are recorded at cost which approximates fair value.

d. Mining properties, exploration and development costs
The Company expenses general prospecting costs and the costs of acquiring and exploring unevaluated mining properties. When a property is determined to have proven and probable reserves, further exploration costs and development costs are capitalized. Acquisition costs relating to properties with development potential are capitalized. When ore reserves are developed and operations commence, capitalized costs will be amortized using the units-of-production method. Upon abandonment or sale of projects, all capital costs relating to the specific project are written off in the year abandoned or sold and a gain or loss is recognized. As of August 31, 1997, no exploration or development costs had been capitalized. On August 31, 1997, the Company established proven and probable reserves at the San Cristobal Project. Accordingly, beginning September 1, 1997, all costs associated with the San Cristobal Project

were capitalized. As of December 31, 1997, capitalized property and development costs related to the San Cristobal Project amounted to $11,888,258.

e. Fixed assets
Buildings and equipment are carried at cost and are depreciated on a straight-line basis over estimated useful lives of three to thirty years.

f. Deferred organizational costs
Costs incurred in the organization of the Company have been capitalized and are being amortized on a straight-line basis over five years.

g. Asset impairment
The Company evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable. If the sum of estimated future net cash flows on an undiscounted basis is less than the carrying amount of the related asset, an asset impairment is considered to exist. The related impairment loss is measured by comparing estimated future net cash flows on a discounted basis to the carrying amount of the asset. Changes in significant assumptions underlying future cash flow estimates may have a material effect on the Company's financial position and results of operations. To date, no such impairments have been identified.

h. Stock compensation
As permitted under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," the Company has elected to measure compensation expense as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under that method, the difference between the exercise price and the market value of options, or the market value of the shares, at the date of grant is charged to compensation expense ratably over the vesting period.

i. Net loss per ordinary share
In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings Per Share, which requires the presentation of basic and diluted earnings per share. All prior-period earnings per share data have been restated to conform with the provisions of this Statement.

Basic earnings per share excludes dilution and is computed by dividing net earnings available to ordinary shareholders by the weighted average number of ordinary shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares.

Outstanding options to purchase 455,625 ordinary shares were not included in the computation of diluted earnings per share because to do so would have been antidilutive.

j. New accounting pronoucements
Other pronouncements issued by authoritative bodies with future effective dates are either not applicable or not material to the consolidated financial statements of the Company.

3. Income Taxes

The provision for income taxes includes United States federal, state and foreign income taxes currently payable as well as deferred income taxes based on currently enacted tax laws. Deferred income taxes are provided for the tax consequences of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Notes to the
Consolidated Financial Statements

(Expressed in United States dollars)

There is currently no taxation imposed by the Cayman Islands. If any form of taxation were to be enacted, the Company has been granted exemption therefrom to January 16, 2015. The Company's subsidiaries which do business in other countries have not generated income and therefore are not liable for local income taxes.

As of December 31, 1997 and 1996, operating loss carryforwards generated by ASC Bolivia amounted to approximately $13.5 and $3.4 million, respectively. Operating losses (as adjusted for inflation) may be carried forward and deducted from taxable income indefinitely. The deferred tax asset resulting from the operating loss carryforwards has been entirely offset by a valuation allowance.

No net deferred tax assets related to operating losses generated through December 31, 1997 by the Company's other foreign subsidiaries have been included in the accompanying financial statements, as all such assets have been entirely offset by a valuation allowance.

4. Value Added Tax Recoverable

The Company has recorded all value added tax ("VAT") paid by ASC Bolivia, ASC Peru and Cordilleras Honduras as recoverable assets. The VAT paid by ASC Bolivia and ASC Peru is expected to be recovered through the sale of mine production and the VAT paid by Cordilleras Honduras is recoverable upon application to local authorities. As of December 31, 1997, the VAT recorded by ASC Bolivia, ASC Peru and Cordilleras Honduras was $1,024,877, $142,661 and $183,466, respectively.

5. Plant, Buildings and Equipment

The components of plant, buildings and equipment were as follows:

December 31,	1997	1996
Buildings	$ 410,639	$274,054
Mining equipment	728,313	183,356
Other furniture and equipment	104,529	66,925
	1,243,481	524,335
Less: Accumulated depreciation	(93,639)	(801)
	$1,149,842	$523,534

Depreciation expense for the period ended December 31, 1997 and 1996 totaled $92,838 and $801, respectively.

In December 1997, the Company exercised its option to acquire the Toldos properties which are contiguous to the San Cristobal Project. Under the terms of the option agreement the Company paid $1,667,621 and assumed a debt of $2,562,196 (See Note 7).

6. Deferred Organizational Costs

December 31,	1997	1996	1995
Organizational costs	$282,956	$282,956	$282,956
Less: Accumulated amortization	(169,773)	(113,182)	(56,591)
	$113,183	$169,774	$226,365

Amortization expense was $56,591 for each of the years ended December 31, 1997, 1996 and 1995.

7. Long-Term Debt

The Company's long-term debt consists of the following:

December 31,	1997	1996
Banco de Santa Cruz	$ 536,000	$ —
Barex	900,000	—
Banco Industrial	1,126,196	—
Monica de Prudencio	944,000	—
Sub-total	3,506,196	—
Less current portion	(412,408)	—
Total	$3,093,788	$ —

Monica de Prudencio – This debt was acquired in September, 1997 when the Company exercised its option to purchase various properties in the San Cristobal area. The total option price was $2,000,000 of which $1,020,000 was paid in cash. The remainder is being paid in 78 monthly installments of $12,000 due the fifteenth of every month until June, 2004 and a final payment of $8,000 due July 15, 2004. No interest is due on this debt.

The following debt was assumed as a result of the Company's decision to exercise its option to purchase the Toldos property in December 1997:

Banco de Santa Cruz – The Company is required to make an initial payment of $53,600 on March 31, 1998. Beginning in 1999, the Company will pay $68,914 for each of the next seven years, plus interest at Banco de Santa Cruz' preferential rate of interest. As of December 31, 1997, the preferential interest rate was approximately 14%. Although the principal payments of $68,914 are due annually, the Company is required to make interest payments on a quarterly basis.

Barex – The Company will make one payment of $900,000 on December 1, 2001. No interest is due on this debt.

Banco Industrial – This debt will be paid through a 5% net smelter return royalty in the first year of production. Based on the current mine plan, the Company anticipates production to begin in the year 2001. No interest is due on this debt.

8. Stock Option Plans

The Company has established a share option plan for officers, employees, consultants and agents of the Company and its subsidiaries (the "Plan"). Under the Plan, the total number of options outstanding at any time cannot exceed ten percent of the number of ordinary shares outstanding. Options granted under the Plan are non-assignable and exist for a term, not to exceed ten years, fixed by the Compensation Committee of the board of directors of the Company ("the Committee"). Options vest ratably over periods of up to four years with the first tranche vesting on the date of grant. Unexercised options expire ten years after the date of grant.

The following table summarizes stock option information:

Years ended December 31,	1997	1996
Options outstanding at beginning of period	281,250	—
Options granted at $8 during period	174,375	281,250
Options outstanding at end of period	455,625	281,250
Options exercisable at end of period	241,727	73,438
Weighted average grant-date fair value of options granted during period	$1.08	$1.30
Weighted average remaining contractual life	8.9 years	9.7 years

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

Pro forma information regarding net income is required by SFAS No. 123, and has been determined as if the Company has accounted for its employees' stock options under the fair value method of SFAS No. 123. For purposes of calculating the fair value of options, volatility was not considered for the options granted since the Company was non-public at the date of grant. The Company currently does not foresee the payment of dividends in the near term. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Years ended December 31,	1997	1996
Weighted average risk-free interest rate	6.27%	6.45%
Expected dividend yield	—	—
Weighted average expected life (in years)	2.33	2.78

For the purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

Years ended December 31,	1997	1996
As reported		
Net loss	$(14,984,958)	$(11,723,313)
Net loss per ordinary share	(.72)	(.66)
Pro forma		
Net loss	$(15,199,421)	$(11,852,522)
Net loss per ordinary share	(.73)	(.67)

9. Events Subsequent to December 31, 1997

In 1997, Apex LDC hired Mineria Tecnica Consultores Asociados S.A. ("Mintec") to perform services on its behalf in Bolivia. These services include administrative expenses, obtaining interests in properties on Apex LDC's behalf, and consulting services. Certain persons affiliated with Mintec serve as directors or officers of Apex LDC's subsidiaries. In January 1998, ASC Bolivia acquired 100% of Mintec's assets, including buildings, equipment, mining concessions and its commercial name, for approximately $1.3 million.

10. Related Party Transactions

Apex LDC engaged Tigris Financial Group Ltd. ("Tigris") and LCM Holdings LDC ("LCM") to provide management advisory services to Apex LDC and its subsidiaries. Tigris is wholly owned by Mr. Thomas S. Kaplan, a director and officer of Apex LDC and its subsidiaries, and an indirect shareholder. LCM is wholly owned by an indirect shareholder of Apex LDC. This consulting arrangement was terminated at the end of the first quarter of 1997, following the formation of Apex Corporation. Apex Corporation provides management, advisory and administrative services for the Company pursuant to a Management Services Agreement dated October 22, 1996. Apex Corporation bills the Company 110 percent of its incurred costs. During the years ended December 31, 1997, 1996 and 1995 fees and reimbursed expenses paid to Tigris and LCM for such services amounted to $93,964, $423,684, and $143,368, respectively.

Apex LDC hires both individuals and companies ("associates") to perform services on its behalf in countries in which it has mineral interests. These services include administrative expenses, obtaining interests in properties on Apex LDC's behalf, and consulting services. In certain cases persons affiliated with such associates serve as officers or directors of Apex LDC's subsidiaries. During the years ended December 31, 1997, 1996 and 1995, the total amounts charged to Apex LDC by such related associates were $7,395,441, $5,695,193, and $1,965,276, respectively, and are included in the statement of operations under the applicable captions.

During the years ended December 31, 1996 and 1995, Apex LDC paid an associate who, until August 6, 1996, was a shareholder of certain subsidiaries of Apex LDC $485,179, and $239,647, respectively, in consideration for geology services provided and disbursements made on Apex LDC's behalf. During 1997, this associate became an employee of Apex Corporation and thus, is not considered a related party.

Two individuals, one of whom is an officer and indirect shareholder of Apex LDC, the second of whom is an officer of certain of Apex LDC's subsidiaries, are also shareholders and directors of Begeyge Minera Ltda. ("Begeyge"), with whom the Company has a non-binding commitment to purchase the Suyatal Project for an aggregate purchase price of $3,000,000 (see Note 12). Begeyge also served as an associate during the years ended December 31, 1997 and 1996. During 1996, the Company paid Begeyge $106,691.

11. Cash Flow Information

A reconciliation of net earnings to cash from operations is as follows:

	Years ended December 31,			For the period December 22, 1994 (inception) through December 31,
	1997	1996	1995	1997
Cash flows from operating activities:				
Net loss	$(14,984,958)	$(11,723,313)	$(1,861,185)	$(28,782,621)
Adjustments to reconcile net loss to net cash used in operating activities:				
Amortization and depreciation	149,429	57,392	56,591	263,412
Minority interest in loss of consolidated subsidiary	—	(2,875,927)	(1,492,975)	(4,558,886)
Stock option compensation expense	416,562	—	—	416,562
Shares issued in consideration for services	1,524,545	—	—	1,524,545
Changes in operating assets and liabilities:				
(Increase) decrease in accrued interest receivable	(102,412)	66,112	(50,856)	(102,412)
(Increase) decrease in prepaid expenses	(813,825)	(154,225)	24,167	(1,690,767)
Increase in Value Added Tax recoverable	(1,351,004)	—	—	(1,351,004)
(Increase) decrease in amounts due to/from affiliates	(1,254,800)	411,246	(411,246)	—
Increase (decrease) in current liabilities	(1,360,045)	2,127,135	244,873	593,866
Net cash used in operating activities	$(17,776,508)	$(12,091,580)	$(3,490,631)	$(33,687,305)

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

12. Commitments and Contingencies

The Company had outstanding options and other non-binding commitments relating to certain mineral properties at December 31, 1997 as follows:

Property	1998	1999	2000	2001	2002	Thereafter
Honduras						
El Coloal District[1]	$ 496,000	$ 200,000	$ 75,000	$ 75,000	$ 75,000	$ 75,000
Suyatal[2]	—	25,000	40,000	40,000	40,000	2,785,000
Bolivia						
San Cristobal	206,500	2,050	1,026,458	2,050	2,050	2,050
Choroma	446	14,882	—	74,405	—	—
Ximena Group[3]	18,420	138,420	138,420	138,420	138,420	138,420
General	172,650	172,650	223,767	591,490	591,490	591,490
Pulacayo[4]	18,000	18,000	18,000	18,000	18,000	18,000
Peru						
Otuzco[5]	54,798	54,798	54,798	54,798	54,798	54,798
Aventura[6]	15,689	15,689	15,689	15,689	15,689	15,689
San Juan de Lucanas[7]	892,852	1,292,852	42,852	42,852	42,852	42,852
General	19,600	19,600	19,600	19,600	19,600	19,600
Chile	24,080	24,080	24,080	24,080	24,080	24,080
Mexico	34,900	34,900	34,900	34,900	34,900	34,900
Total	$1,953,935	$2,012,921	$1,713,564	$1,131,284	$1,056,879	$3,801,879

[1] *This district is comprised of five separate properties. Upon production, the Company will also pay a 5% net smelter return ("NSR") royalty on one of these properties.*
[2] *Annual installments are not to exceed the greater of $40,000, or a 2% NSR.*
[3] *These payments include purchase payments of $120,000 per year plus patent payments of $18,420. The 1998 payment of $120,000 is included in the Company's current portion of long-term debt.*
[4] *These payments are being applied toward a joint venture with Cooperativa Minera Pulacayo.*
[5] *Otuzco is comprised of five properties, two of which are leased with an option to buy. Should the Company elect to exercise these options, total payments would be $550,000.*
[6] *Aventura is comprised of five properties, two of which are leased with an option to buy. Should the Company elect to exercise these options, total payments would be $90,000.*
[7] *The Company has an option to purchase this property for $2.1 million payable in 15 installments. This table reflects the payments to be made if the Company makes the initial payment in June 1998.*

In addition to those summarized above, the Company has the following non-binding commitments:

Tajikistan – Kanimansur Ore Field
The joint venture agreement related to this proposed acquisition is still awaiting approval by the government. An initial capital contribution of $49,000 must be effected within one year of the formal registration of Kanimansur Mining.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars)

13. Fair Value of Financial Information

The Company's financial instruments consist of cash and cash equivalents, receivables, VAT recoverable, accounts payable, other current liabilities and long-term debt. Except for the VAT and long-term debt, the carrying amounts of these financial instruments approximate fair value due to their short maturities. The estimated fair values of the Company's long-term financial instruments, as measured on December 31, 1997 and 1996, are as follows:

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
VAT recoverable	$1,351,004	$ 995,314	—	—
Long-term debt	3,093,788	2,046,358	—	—

The fair values of the Value Added Tax recoverable and the long-term debt are estimated based on expected discounted future cash flows.

Board of Directors

Michael Comninos
Former Director
N.M. Rothschild & Sons Limited
Age 66

Harry M. Conger
Chairman
Homestake Mining Company
Age 67

Eduardo S. Elsztain
President
Consultores Asset Management S.A.
Age 38

David Sean Hanna
Law Partner
Arthur D. Hanna & Co.
Age 37

Ove Hoegh
Senior Partner
Hoegh Invest
Age 61

Keith R. Hulley
President and
Chief Operating Officer
Apex Silver Mines Corporation
Age 58

Thomas S. Kaplan
Chairman and Founder
Apex Silver Mines Limited
Chief Executive Officer
Apex Silver Mines Corporation
Age 35

Richard Katz
Chairman, Board of Advisors
Quantum Industrial Holdings Ltd.
Age 56

Paul Soros
Investment Advisory Committee Member
Quantum Industrial Partners LDC
Age 71

General Information

Corporate Headquarters Address
Apex Silver Mines Limited
Caledonian House, Ground Floor, Mary Street
George Town, Grand Cayman
Cayman Islands, British West Indies

Shareholder Information

Stock Transfer Agent
Questions regarding your
Shareholder account should
be addressed to:

American Stock Transfer
40 Wall Street, 46th Floor
New York, NY 10005
(718) 921-8208
(800) 937-5449
Attn: Shareholder Relations

Investor Relations Contact/
1997 10-K Report
The Company's 1997 Annual Report
and/or Form 10-K is available without
charge by contacting:

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Vice President Investor Relations
Apex Silver Mines Corporation
1700 Lincoln Street, Suite 3050
Denver, CO 80203
(303) 839-5060

Independent Accountants
Price Waterhouse LLP
950 17th Street
Suite 2500
Denver, CO 80202

Annual Meeting
May 14, 1998, Thursday
4:00 p.m. (EDT)

St Regis Hotel
Irirdium Room
2 East 55th Street at Fifth Avenue
New York, NY 10022